

SOUTHEAST PUBLIC SAFETY AUTHORITY

FINANCIAL STATEMENTS

MARCH 31, 2008

**KARL L. DRAKE
CERTIFIED PUBLIC ACCOUNTANT**

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1-2
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	3-8
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Assets.....	9
Statement of Activities.....	10
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	11
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds.....	12
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	13
NOTES TO FINANCIAL STATEMENTS.....	14-19
REQUIRED SUPPLEMENTAL INFORMATION	
Budgetary Comparison Schedule - General Fund.....	21
OTHER SUPPLEMENTAL INFORMATION	
All Governmental Funds	
Comparative Balance Sheet	23
Comparative Statement Of Revenue, Expenditures And Changes In Fund Balance.....	24
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	25-26

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Southeast Public Safety Authority
Union, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Southeast Public Safety Authority, as of and for the year ended March 31, 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Southeast Public Safety Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Southeast Public Safety Authority as of March 31, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2008, on our consideration of Southeast Public Safety Authority's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants.

The administration's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 21 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Southeast Public Safety Authority's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, P.C.
Certified Public Accountant

September 12, 2008

SOUTHEAST PUBLIC SAFETY AUTHORITY

Management's Discussion and Analysis

This section of Southeast Public Safety Authority's annual financial report presents our discussion and analysis of the Authority's financial performance during the year ended March 31, 2008. It is best read in conjunction with the Authority's financial statements that follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Southeast Public Safety Authority financially as a whole. The *Government-Wide Financial Statements* provide information about the activities of the entire Authority, presenting both an aggregate view of the Authority's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Authority's operations in more detail than the government-wide financial statements by providing information about the Authority's most significant fund - the General Fund - with all other funds presented in one column as non-major funds.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

Budgetary Information for the General Fund
(Required Supplemental Information)

Other Supplemental Information

Reporting The Authority As A Whole - Government-Wide Financial Statements

One of the most important questions asked about the Authority is, "As a whole, what is the Authority's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Authority's financial statements, report information on the Authority as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Authority's operating results. However, the Authority's goal is to provide services to our residents, not to generate profits as commercial entities do. One must consider many other non-financial factors to assess the overall health of the Authority.

The statement of net assets and statement of activities report the governmental activities for the Authority, which encompass all of the Authority's services, including resources and community enrichment. Revenue from other governments finance most of these activities.

Reporting The Authority's Most Significant Funds - Fund Financial Statements

The Authority's fund financial statements provide detailed information about the most significant funds - not the Authority as a whole. Some funds are required to be established by State law and by bond covenants. However, the Authority establishes funds as needed to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Authority use the following accounting approach:

Governmental Funds - All of the Authority's services are reported in governmental funds. Governmental fund reporting focuses on showing money inflows and outflow and the balances remaining at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Authority and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation.

SOUTHEAST PUBLIC SAFETY AUTHORITY

Management's Discussion and Analysis

The Authority As A Whole

Recall that the statement of net assets provides the perspective of the Authority as a whole. Table 1 provides a summary of the Authority's net assets as of March 31, 2008 and 2007:

TABLE 1	Governmental Activities (In Thousands)	
	2008	2007
ASSETS		
Current and other assets	\$ 463.2	\$ 159.0
Capital assets - Net of accumulated depreciation	244.0	212.3
TOTAL ASSETS	707.2	371.3
LIABILITIES		
Current liabilities	80.8	38.8
Long-term liabilities	---	---
TOTAL LIABILITIES	80.8	38.8
NET ASSETS		
Invested in property and equipment - Net of related debt	244.0	212.3
Restricted	---	---
Unrestricted	382.4	120.2
TOTAL NET ASSETS	\$ 626.4	\$ 332.5

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Authority's governmental activities is discussed below. The Authority's net assets were \$626.4 thousand at March 31, 2008. Capital assets, net of related debt totaling \$244.0 thousand compares the original cost, less depreciation of the Authority's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the acquisition of those assets. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Authority's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$382.4 thousand) was unrestricted.

The \$382.4 thousand in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Authority as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for years ended March 31, 2008 and 2007.

TABLE 2	Governmental Activities	
	(In Thousands)	
	2008	2007
REVENUE		
Program Revenue		
Charges for services	\$ 107.1	\$ 107.7
Grants and categoricals	59.7	23.0
General Revenue		
Property taxes	475.3	---
State aid	---	---
Intergovernmental revenue	122.4	209.8
Interest	1.8	---
Other	15.7	3.6
TOTAL REVENUE	\$ 782.0	\$ 344.1
FUNCTION/PROGRAM EXPENSES		
General Government	\$ ---	\$ ---
Public Safety	455.1	296.6
Roads	---	---
Community Enrichment	---	---
Interest	---	---
Depreciation (unallocated)	32.9	26.0
TOTAL FUNCTION/PROGRAM EXPENSES	488.0	322.6
INCREASE IN NET ASSETS	\$ 294.0	\$ 21.5

SOUTHEAST PUBLIC SAFETY AUTHORITY

Management's Discussion and Analysis

As reported in the statement of activities, the cost of all governmental activities this year was \$488.0 thousand. Certain activities were partially funded from those who benefited from the programs (\$107.1 thousand) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$59.7 thousand). The remaining "public benefit" portion of our governmental activities was paid with other revenue, such as interest and general entitlements.

The Authority experienced an increase in net assets of \$294.0 thousand. The key reasons for the change in net assets were collecting property taxes and controlling expenses. The increase in net assets differs from the change in fund balance and a reconciliation appears on page 13.

As discussed above, the net cost shows the financial burden that was placed on the State and the Authority's taxpayers by each of these functions. Since property taxes and charges for services constitute the vast majority of the Authority's operating revenue sources, the Board of Directors must annually evaluate the needs of the Authority and balance those needs with available unrestricted resources.

The Authority's Funds

As noted earlier, the Authority uses funds to help it control and manage money for certain purposes. Looking at funds helps the reader consider whether the Authority is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Authority's overall financial health.

As the Authority completed this year, the governmental funds reported a combined fund balance of \$382.4 thousand, which is an increase of \$262.2 thousand from last year. The primary reasons for the increase were property tax revenue and controlling expenditures.

General Fund Budgetary Highlights

Over the course of the year, the Authority amends its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Authority's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Capital Asset and Debt Administration

At March 31, 2008, the Authority had \$244 thousand invested in capital assets that include vehicles and equipment.

	2008	2007
Vehicles	\$ 500,000	\$ 500,000
Equipment	116,126	51,425
Total Capital Assets	616,126	551,425
Less Accumulated Depreciation	-372,113	-339,164
Net Capital Assets	\$ 244,013	\$ 212,261

At March 31, 2008, the Authority had no long-term liabilities.

Economic Factors And Next Year's Budgets And Rates

The Board of Directors and administration considered many factors when setting the Authority's 2008-09 fiscal year budget. The Authority is expected to purchase two new vehicles in this next fiscal year, which will cost approximately \$500 thousand. This will be funded with federal FEMA grants and existing sources. Property tax revenue will be increased but no governmental revenue will be received from the Townships. Personnel costs, vehicle costs, and utilities will increase.

Contacting The Authority's Financial Management

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors of Southeast Public Safety Authority with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Fire Chief, P.O. Box 409, Union, Michigan 49130.

SOUTHEAST PUBLIC SAFETY AUTHORITY

Government-Wide Financial Statements

STATEMENT OF NET ASSETS

March 31, 2008

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Cash	\$ 416,115
Accounts Receivable	8,872
Due from Other Governmental Units	38,207
Prepaid Expenditures	<u>---</u>
Total Current Assets	<u>463,194</u>
Non-Current Assets	
Capital Assets	616,126
Less: Accumulated Depreciation	<u>-372,113</u>
Total Non-Current Assets	<u>244,013</u>
TOTAL ASSETS	<u>\$ 707,207</u>
 LIABILITIES AND NET ASSETS	
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 8,780
Accrued Payroll	---
Due to Other Governmental Units	<u>72,000</u>
Total Current Liabilities	<u>80,780</u>
Non-Current Liabilities	<u>---</u>
TOTAL LIABILITIES	<u>80,780</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	244,013
Restricted for Debt Service	---
Unrestricted	<u>382,414</u>
TOTAL NET ASSETS	<u>626,427</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 707,207</u>

See Accompanying Notes to Financial Statements

STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2008

		<u>Program Revenues</u>		<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants</u>	<u>Net <Expense> Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS				
Governmental Activities				
General Government	\$ ---	\$ ---	\$ ---	\$ ---
Public Safety	455,098	107,117	59,707	-288,274
Roads	---	---	---	---
Community Enrichment	---	---	---	---
Interest on Long-Term Debt	---	---	---	---
Depreciation (Unallocated)	<u>32,949</u>	<u>---</u>	<u>---</u>	<u>-32,949</u>
Total Governmental Activities	<u>\$ 488,047</u>	<u>\$ 107,117</u>	<u>\$ 59,707</u>	<u>\$ -321,223</u>
General Revenue				
Taxes				
Property Taxes, Levied for General Operations				\$ 475,289
Property Taxes, Levied for Debt Service				---
Governmental Revenue				122,387
Interest Earnings				1,814
Other				<u>15,663</u>
Total General Revenue				<u>615,153</u>
CHANGE IN NET ASSETS				293,930
NET ASSETS - BEGINNING OF YEAR				<u>332,497</u>
NET ASSETS - END OF YEAR				<u><u>\$ 626,427</u></u>

SOUTHEAST PUBLIC SAFETY AUTHORITY

Fund Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS

MARCH 31, 2008

	General	Other Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 416,115	\$ ---	\$ 416,115
Accounts Receivable	8,872	---	8,872
Due from Other Governmental Units	38,207	---	38,207
Due from Other Funds	---	---	---
Inventories	---	---	---
TOTAL ASSETS	\$ 463,194	\$ ---	\$ 463,194
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 8,780	\$ ---	\$ 8,780
Accrued Salaries and Withholdings	---	---	---
Due to Other Funds	---	---	---
Due to Other Governmental Units	72,000	---	72,000
TOTAL LIABILITIES	80,780	---	80,780
FUND BALANCES			
Reserved for Inventories	---	---	---
Designated for Future Purchases	224,893	---	224,893
Unreserved and Undesignated	157,521	---	157,521
TOTAL FUND BALANCES	382,414	---	382,414
TOTAL LIABILITIES AND FUND BALANCES	\$ 463,194	\$ ---	\$ 463,194
TOTAL GOVERNMENTAL FUND BALANCES			\$ 382,414
Amounts reported for governmental activities in the statement of net assets are different because:			
- Capital assets used in governmental activities are not financial resources, and are not reported in the funds:			
Cost of the Capital Assets			\$ 616,126
Accumulated Depreciation			<u>-372,113</u>
			244,013
- Long-term Liabilities are not due and payable in the current year and are not reported in the fund.			
Bonds Payable			---
Compensated absences			---
- Accrued interest is not included as a liability in governmental fund.			<u>---</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES			\$ 626,427

See Accompanying Notes to Financial Statements.

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2008

	General	Other Funds	Totals
REVENUE			
Property Taxes	\$ 475,289	\$ ---	\$ 475,289
Federal Grants	59,707	---	59,707
State Grants	---	---	---
Governmental Revenue	122,387	---	122,387
Charges for Services	107,117	---	107,117
Investment	1,814	---	1,814
Other	15,663	---	15,663
TOTAL REVENUE	781,977	---	781,977
EXPENDITURES			
General Government	---	---	---
Public Safety	455,100	---	455,100
Public Works	---	---	---
Recreational and Cultural	---	---	---
Debt Service	---	---	---
Capital Outlay	64,701	---	64,701
TOTAL EXPENDITURES	519,801	---	519,801
EXCESS OF REVENUE OVER EXPENDITURES	262,176	---	262,176
OTHER FINANCING SOURCES			
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES	---	---	---
NET CHANGE IN FUND BALANCES	262,176	---	262,176
FUND BALANCES - BEGINNING OF YEAR	120,236	---	120,236
FUND BALANCES - END OF YEAR	\$ 382,412	\$ ---	\$ 382,412

See Accompanying Notes to Financial Statements.

SOUTHEAST PUBLIC SAFETY AUTHORITY

Fund Financial Statements

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2008

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 262,176**

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	-32,949	
Capital Outlay	<u>64,703</u>	31,754

- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid ---
- Repayment of note and bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) ---
- Compensated absences are included in expenditures in the statement of activities but not in the governmental funds ---

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 293,930**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY

The Southeast Public Safety Authority provides fire protection and rescue services to the Townships of Porter and Mason, of Cass County, Michigan operating under an intergovernmental service agreement. The Authority is directed by a Board consisting of representatives from each of the participating governmental entities.

B. BASIS OF PRESENTATION

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Government-Wide Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

SOUTHEAST PUBLIC SAFETY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

B. BASIS OF PRESENTATION (CONTINUED)

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

GOVERNMENTAL FUND

General Fund - The General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

C. BUDGETS AND BUDGETARY ACCOUNTING

The General Fund is under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Authority for these budgetary funds were adopted at the functional level.

D. CASH EQUIVALENTS

The Authority considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

E. FINANCIAL INSTRUMENTS

The Authority does not require collateral to support financial instruments subject to credit risk.

F. FUND EQUITY

Reservations of fund balance represent these portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

G. CAPITAL ASSETS

Capital assets, which include equipment and vehicles are reported in the applicable governmental column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized.

Equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Vehicles	5-20 years
Equipment	5-10 years

H. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

I. TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with United States generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

J. PROPERTY TAXES

Real and personal property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the subsequent year. Taxes are due and payable as of February 28. The County of Cass prepares the tax bills for Porter and Mason Townships, and the Townships collect the taxes prior to return to the County. The property tax revenue in the accompanying financial statements are recognized as those levied during the year.

All unpaid taxes become delinquent after February 28, at which time the uncollected real taxes are returned to Cass County for collection and to be added to the delinquent tax rolls. The County of Cass purchases delinquent real property taxes of the Townships. The County sells tax notes, the proceeds of which are used to pay the Townships for the taxes. This took place in June 2008. These taxes have been recorded as revenue for the current year.

SOUTHEAST PUBLIC SAFETY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

J. PROPERTY TAXES (CONTINUED)

Southeast Public Safety Authority is authorized to assess 2.00 mills for general operations. Millage rates levied for 2007 were 2.00 mills for operations. Total taxable value of real and personal property in the Townships was \$237,640,972.

The Townships are responsible for the collection of delinquent personal property taxes.

K. ESTIMATES

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Authority, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).
3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority is in compliance with State law regarding their cash deposits.

The Authority maintains all of its cash deposits at one bank.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's cash deposits are as follows:

<u>Deposits</u>	<u>Book Value</u>	<u>Carrying Amounts</u>
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured & Uncollateralized	316,115	339,610
Total Deposits	<u>\$ 416,115</u>	<u>\$ 439,610</u>

The differences between the book value and the bank carrying amounts are caused by deposits in transit and outstanding checks.

NOTE 3 - ACCUMULATED FUND DEFICITS

There were no accumulated fund deficits at March 31, 2008.

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the Authority's Governmental activities was as follows:

	<u>Balance April 1, 2007</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance March 31, 2008</u>
Capital assets being depreciated:				
Vehicles	\$ 500,000	\$ ---	\$ ---	\$ 500,000
Equipment	51,425	64,701	---	116,126
Subtotal	<u>551,425</u>	<u>64,701</u>	<u>---</u>	<u>616,126</u>
Accumulated depreciation:				
Vehicles	331,950	22,150	---	354,100
Equipment	7,214	10,799	---	18,013
Subtotal	<u>339,164</u>	<u>32,949</u>	<u>---</u>	<u>372,113</u>
Net capital assets	<u>\$ 212,261</u>	<u>\$ 31,752</u>	<u>\$ ---</u>	<u>\$ 244,013</u>

Depreciation expense was not charged to activities as the Authority considers its assets to impact multiple activities and allocation is not practical.

NOTE 5 - LEASES

The Authority had no lease agreements at March 31, 2008.

SOUTHEAST PUBLIC SAFETY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - EXPENDITURES IN EXCESS OF BUDGET

PA 621 of 1978, Sect. 186(1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures for the budgetary funds have been shown on an activity basis. The approved budgets of the Authority for these budgetary funds are adopted at the activity level.

During the period ended March 31, 2008, there were no expenditures in excess of the amounts appropriated.

NOTE 7 - ACCUMULATED UNPAID BENEFITS

At March 31, 2008, the amount of accumulated sick and vacation pay was immaterial and not booked.

NOTE 8 - POST-EMPLOYMENT BENEFITS

The Authority provides no post-employment benefits to retirees.

NOTE 9 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (worker's compensation). The Authority has purchased commercial insurance for property loss, torts and workers' compensation claims.

NOTE 10 - STRUCTURE

Southeast Public Safety Authority was formed on October 1, 2004, to perform fire and rescue services for the Townships of Porter and Mason of Cass County.

Beginning October 1, 2005, Porter and Mason Townships fire protection and ambulance services were contracted with Southeast Public Safety Authority. (SEPSA) The cash resources of the Porter Township Fire Fund (\$3,437) were transferred to SEPSA, as were the vehicles and equipment owned by Porter Township. On April 1, 2006, Porter and Mason Townships began paying SEPSA \$11,032.90 and \$6,450.93 per month, respectively, for these services. Beginning in November 2007, SEPSA began collecting property tax revenue, and payments from Porter and Mason Townships ceased. Total amount paid to SEPSA during the year ended March 31, 2008 was \$122,387.

NOTE 11 - NEWBERG TOWNSHIP AGREEMENT

Effective April 1, 1999, Porter Township contracted with Newberg Township to provide fire and ambulance services to the northern part of Porter Township. In prior years, the cost of the contract was 2% of the state equalized value of the property in this district. This continued through March 31, 2006, when the Townships re-negotiated this contract. In the years ending March 31, 2007 and 2008, the cost of the contract was based on the average of state equalized value and taxable value of the properties in the District. Porter Township paid the March 31, 2006 amount due (\$78,718) and accrued the March 31, 2007 amount (\$64,627). A total of \$65,000 was paid by Porter Township in the current fiscal year to eliminate the amount due.

Beginning in the current year, this agreement will be funded by the Southeast Public Safety Authority (SEPSA), and no future obligation exists to Porter Township. SEPSA paid \$27,000 to Porter Township for the prior year obligations, and owes \$72,000 for the current year obligation.

REQUIRED SUPPLEMENTAL INFORMATION

SOUTHEAST PUBLIC SAFETY AUTHORITY

General Fund

BUDGETARY COMPARISON SCHEDULE

YEAR ENDED MARCH 31, 2008

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Property Taxes	\$ 475,282	\$ 475,282	\$ 475,289	\$ 7
Federal Grants	91,449	91,449	59,707	-31,742
State Revenue	---	---	---	---
Governmental Revenue	---	---	122,387	122,387
Investment	---	---	1,814	1,814
Charges for Services	122,000	122,000	107,117	-14,883
Local Grant Revenue	---	---	6,707	6,707
Other	5,000	5,000	8,956	3,956
Transfers In	---	---	---	---
TOTAL REVENUE	693,731	693,731	781,977	88,246
EXPENDITURES				
General Government	---	---	---	---
Public Safety	468,412	468,412	455,100	13,312
Public Works	---	---	---	---
Recreation and Culture	---	---	---	---
Debt Service	---	---	---	---
Capital Outlay	265,000	265,000	64,701	200,299
Other Uses - Operating Transfers Out	---	---	---	---
TOTAL EXPENDITURES	733,412	733,412	519,801	213,611
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER USES	-39,681	-39,681	262,176	301,857
BUDGETARY FUND BALANCE - April 1, 2007	120,236	120,236	120,236	---
BUDGETARY FUND BALANCE - MARCH 31, 2008	\$ 80,555	\$ 80,555	\$ 382,412	\$ 301,857

OTHER SUPPLEMENTAL INFORMATION

SOUTHEAST PUBLIC SAFETY AUTHORITY

All Governmental Funds

COMPARATIVE BALANCE SHEET

MARCH 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash	\$ 416,115	\$ 132,553
Accounts Receivable	8,872	26,495
Due from Other Governments	38,207	---
Prepaid Expenses	---	---
TOTAL ASSETS	<u>\$ 463,194</u>	<u>\$ 159,048</u>
 LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts Payable	\$ 8,780	\$ 38,812
Accrued Payroll and Payroll Taxes	---	---
Due to Other Governments	72,000	---
TOTAL LIABILITIES	80,780	38,812
FUND BALANCE	<u>382,414</u>	<u>120,236</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 463,194</u>	<u>\$ 159,048</u>

COMPARATIVE STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE

YEARS ENDED MARCH 31, 2008 AND 2007

	2008	2007
REVENUE		
Property Taxes	\$ 475,289	\$ ---
Federal Grant Revenue	59,707	22,971
Local Grant Revenue	6,707	---
Governmental Revenue		
Porter Township	77,230	132,395
Mason Township	45,157	77,411
Charges for Services		
Fire Runs	7,350	18,061
Ambulance Runs	99,767	89,665
Other Income	10,770	3,570
TOTAL REVENUE	781,977	344,073
OPERATING EXPENDITURES		
Salaries	114,788	107,625
Professional Fees	6,211	9,342
Benefits	2,191	3,268
Payroll Taxes	10,033	8,722
Insurance	15,790	12,428
Workers Compensation	9,674	6,797
Supplies	46,379	9,658
Office	7,820	5,005
Training	6,387	3,433
Utilities	12,591	10,272
Repairs and Maintenance	29,931	17,186
Dues and Subscriptions	1,337	2,564
Collection	37,484	34,969
Uniform	5,655	2,848
ALS Intercept	16,715	19,123
Travel and Entertainment	4,249	4,242
Vehicle Expense	26,094	11,162
Miscellaneous	2,771	972
Newberg Contract	99,000	27,000
Capital Outlay	64,701	32,195
TOTAL EXPENDITURES	519,801	328,811
INCREASE IN FUND BALANCE	262,176	15,262
FUND BALANCE - BEGINNING OF YEAR	120,236	104,974
FUND BALANCE - END OF YEAR	\$ 382,412	\$ 120,236

3775 Kimmel Road

(517) 937-9333 Phone / 563-2552

Fax

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Southeast Public Safety Authority

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southeast Public Safety Authority, as of and for the year ended March 31, 2008, which collectively comprise Southeast Public Safety Authority's basic financial statements and have issued our report thereon dated September 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Southeast Public Safety Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southeast Public Safety Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Southeast Public Safety Authority's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Southeast Public Safety Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Southeast Public Safety Authority's financial statements that is more than inconsequential will not be prevented or detected by Southeast Public Safety Authority's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

The Board of Directors does not have procedures in place to prepare financial statements in accordance with United States generally accepted accounting principles, including procedures to record changes in capital assets and to present required financial statement disclosures.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Southeast Public Safety Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeast Public Safety Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the Board of Directors, management, and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Karl L. Drake".

Karl L. Drake PC
Certified Public Accountant

September 12, 2008

Karl L. Drake, P.C.
Certified Public Accountant

3775 Kimmel Road

(517) 937-9333 Phone / 563-2552

Fax

September 12, 2008

To the Board of Directors of
Southeast Public Safety Authority

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Southeast Public Safety Authority for the year ended March 31, 2008, and have issued our report thereon dated September 12, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 11, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management, with your oversight, are fairly presented in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated January 11, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Southeast Public Safety Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during this fiscal year. We noted no transactions entered into by the governmental unit during the year, for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events

affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the depreciation is based on useful life of the assets. We evaluated the key factors and assumptions used to develop the estimate, in determining that it is reasonable, in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of fixed assets in Note 4 to the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Some of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, which could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 12, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. The primary discussions held this year revolved around the lack of segregation of responsibilities in the Village office. These discussions occurred in the normal course of our professional relationship, however, and our responses were not a condition to our retention.

This information is intended solely for the use of Southeast Public Safety Authority and the management of the Southeast Public Safety Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Karl L. Drake". The signature is written in dark ink and is positioned above the printed name.

Karl L. Drake, P.C.